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## Research Corner:

# The Evolution of the Process of Allocating Federal Campus-based Student Financial Aid to Postsecondary Education Institutions

By Robert Pernell Huff

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A recent article in the *New York Times* observed that the formula used by the federal government to distribute federal student aid funds favors the colleges and universities with greatest resources over those which are less well off (*New York Times*, 2003). The story, "Richest Colleges Receive Richest Share of Federal Aid" by Greg Winter, presented comparisons of the average amount of federal aid received (per student applying for aid) by wealthier institutions and those that were less well financed. The article pointed out that less wealthy institutions generally have greater numbers of economically disadvantaged students. As a result, the current system of allotting campus-based funds often directs smaller amounts of campus-based aid to schools with larger populations of lower-income students. Poorer students therefore have decreased access to some of the most beneficial assistance offered through the federal aid programs.

The disparity was certainly not intended by the college financial experts who developed the current allocation system a quarter century ago. A review of how this system has evolved may help in understanding this disparity and how it might be addressed in the reauthorization of the Higher Education Act, which is currently underway.

## The Beginnings of Federal Campus-Based Aid

The initial campus-based program was the National Defense Student Loan program (NDSL), now known as the Federal Perkins Loan program. Established in 1958 by the National Defense Education Act, the legislation—which followed the successful launch of Soviet Sputniks—authorized several initiatives aimed at restoring America's competitive position in science, engineering, and foreign languages.

The NDSL loans, which were to be repaid after graduation or withdrawal from college, provided for assistance of no more than \$1,000 a year or \$5,000 in the aggregate. For each nine dollars of federal funds received, the participating institution had to provide one dollar of its own resources. In the program's first year, 25,000 students attending 1,100 colleges and universities borrowed about \$10 million in NDSL funding (Moore, 1983).

Two considerations regarding the NDSL allocations should be mentioned. First, the statute itself stipulated remark-

ably few rules for the administration of the loans and how funds would be allocated among institutions. Second, at the time there existed a state allotment formula that apportioned available funds based on each state's number of full-time college students compared with the national total.

The staff of the U.S. Office of Education—then part of the Department of Health, Education, and Welfare—was not yet knowledgeable about the emerging field of student financial aid. A number of college administrators were therefore summoned to the nation's capital to determine how the funds should be distributed. Most of these individuals were college presidents, but they were joined by two of the nation's few campus student financial aid administrators: George Risty of the University of Minnesota and myself. I had been appointed to a position in student aid at Stanford University only a few months earlier.

At that time, the process used to distribute funds largely required colleges and universities to inform the government of how much they needed. The college presidents—who claimed a pretty fair knowledge of the integrity of many of their colleagues at these institutions—determined the reasonableness of the requests. The institutional applications were simple, requesting data on the cost of attendance, the number of eligible borrowers, the amount and nature of other sources of financial aid available on the campus, and an estimate of the ability of students and parents to meet college costs.

A second campus-based federal student aid program came into existence as a result of the Economic Opportunity Act of 1964, a component of President Lyndon Johnson's "War on Poverty." Initially assigned by the legislation to the Office of Economic Opportunity, in 1965 the Higher Education Act moved the College Work-Study program (CWS)—now known as the Federal Work-Study program—to the U.S. Office of Education (OE) for administration.

The CWS program provided funds to pay the wages of college students employed either on-campus or by non-profit agencies. The funds to institutions had to be distributed in accordance with a state allotment formula. As with the NDSL, participating colleges were required to match the funds received from the government. Also like the NDSL, the government turned to the colleges for advice in determining rules for the program's operation. Since the establishment of the NDSL six years earlier, a growing number of colleges had appointed financial aid administrators. That meant that many more of these professionals were available to help get the new program functioning.

Being a party to the first of these groups, I recall that—as with NDSL—the decisions we made were largely subjective due to the small quantity of available data. My group was called upon to determine whether graduate and professional students should be eligible to participate. By a very narrow vote, we de-

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cided that they could. About 115,000 students at 1,095 institutions participated in the first year of CWS. (Moore, 1983). The payroll for that period was \$22 million. Colleges and universities that wanted to participate in the federal aid programs were required to make a formal agreement with OE, certifying that they met certain requirements.

Educational Opportunity Grants—now known as Federal Supplemental Educational Opportunity Grants—was the third federal campus-based program created as part of the HEA. The HEA was clearly a watershed piece of legislation, as it authorized a host of federal student financial assistance programs and supporting activities. Typically, this law comes up for reauthorization every four years, although in recent times the interval has often stretched to five or six years. Following the enactment of the 1965 HEA legislation, the decisions on institutional applications for the funding under the three student aid programs were moved out of Washington, DC to OE's ten regional offices. However, appeals of the decisions of these regional review panels were sent to Washington for consideration.

I was invited to serve on one of these panels in Region Nine (San Francisco) and found the process to be more data-driven and less subjective than the 1959 NDSL panel I served on in Washington, D.C. The information was collected on a "tripartite" application, which later became known as the Fiscal Operations Report and Application to Participate, or FISAP.

By 1974, serious doubts were being raised about the process. According to a General Accounting Office (GAO) report, the process was abusive and devoid of equity (U.S. Office of Education, 1979.) It accused institutions of inflating their requests in an effort to acquire larger funding levels. OE responded to the GAO report in 1974 and 1975 by convening a series of work conferences in cooperation with five other organizations to address a number of problems. The recommendations that emanated from these meetings emphasized the need for OE to create a database to assist in the management of campus-based funds, which would bring normative data to the application process. These data were expected to provide information—updated periodically and available by state—on the financial need of college students. Institutions would submit funding requests for the three campus-based programs through this application process.

### **Efforts to Address the Dissatisfaction with the Allocation Process**

Actually, OE Region Five had created the kind of database system envisaged by the work groups before these groups got underway. The Student Aid Management Information System (SAMIS) consisted of three principle modules. The first model was used for editing and validating the information submitted. The second module displayed the consequences of the distribution. The last module calculated comparisons of the decisions and prepared the individual award notices.

The success of SAMIS led the 1975 OE Work Conference to recommend that all ten regions adopt or duplicate the system. By that time, dissatisfaction with the allocation process had become evident in numerous places. An analysis conducted in Region Ten pointed out the inaccuracy of the data that drove the institutional allocations. A National Association of Student Financial Aid Administrators (NASFAA) survey on the opinions of individuals who had served on the 1975 regional panels issued a rather scathing indictment of what was taking place. The views expressed by these panelists pointed to inflated requests for campus-based funds.

In response, the Secretary of Health, Education, and Welfare appointed a Student Financial Assistance Study Group to examine all aspects of the federal student aid programs and offer recommendations for improvement. The body found that the data used was difficult for institutions to prepare and difficult for the panels to substantiate. "Grantsmanship"—that is, manipulating the data to produce the most beneficial allocation—was said to prevail across all regions (U.S. Office of Education, 1979, p. 5). The study group urged the creation of a working body which would "develop a calendar for identifying, testing, and implementing changes in the application process" (U.S. Office of Education, 1979, p. 6).

## **The Panel of Experts**

Responding to the study group's recommendations, Commissioner of Education Ernest Boyer appointed a panel of financial aid administrators and others in the summer of 1977 to create a new process for distributing campus-based aid funds to colleges and universities (U.S. Office of Education, 1979). The group—known as the Panel of Experts or the Huff Panel, after its chair—was also charged with examining the fund applications and their regional review. The group also reviewed state allotment formulas and offered recommendations for their modification or removal.

The full panel met on 17 occasions over a 20-month period. Attention to the specific issues fell to seven sub-groups, which were composed of panel members, the panel's staff, and other OE personnel.

The nine members of the Panel of Experts included Robert Pernell Huff (chair), director of financial aid, Stanford University, CA; Dorothy Cann, director of financial aid, APEX School, New York, NY; Goldie Claiborne, director of the office of financial aid, Howard University, Washington, DC; James Dyer, director of financial aid, Loyola University, Chicago; Sumner Gambee, associate dean for student affairs, California State University and Colleges; Jerrold Gibson, director of the office of fiscal services, Harvard University; David Hartshorn, director of financial aid, Florida Junior College, Jacksonville; Abraham Nechemie, partner, Wiss and Company accounting firm, East

Orange, NJ; and James Todd, director of financial aid, University of Houston.

The panel was also ably assisted by sixteen individuals from both inside and outside the federal government, including Staff Director Josephine Ferguson, assistant regional administrator in Region Five; Assistant Staff Director Robert Holmes, a senior research associate at the University of Michigan in Ann Arbor; and Alex Ratnofsky, an OE operations analyst.

Early on, the group agreed that the funding process put forward should be based on "institutional need," which was grounded upon "verifiable" and "actual" data (U.S. Office of Education, 1979, p. 10). Panelists also concurred that the process must be "simplified for institutions and for OE" (U.S. Office of Education, 1979, p. 10).

As proposed by the Panel of Experts, distribution of funds was to be based on the acceptance and sustained utilization of the formula that was developed (U.S. Office of Education, 1979). Seven principle recommendations were associated with this basic tenet:

- Funding during the second year of the new process should be reduced to 90 percent of what an institution had spent in 1977-1978 or 1978-1979, whichever was larger. Subsequently, this conditional guarantee should be lowered until it was entirely removed and all funds thereafter allocated in accordance with the formula.
- The new process should include continual and extensive testing, including examining alternative methodologies and definitions.
- Determining institutional eligibility under the state allotment formulas should take into account funds already available as a consequence of the conditional guarantee.
- The reduction of an institution's NDSL capital contribution because of a high level of defaulted loans should take into account attempts at collection.
- Because the new system would require continuing development, a follow-up body should be appointed.
- Funds available for allocation in the fall should be carefully assimilated into the new process and the data monitored for future application. Further, any reallocation that occurred should be the same for all three campus-based programs.
- A better and less complicated method for addressing the requirements of clock-hour institutions should be found.

### **Efforts to Balance Equity with Stability**

Fairly early, the panel reached agreement on several rules that would govern the outcome of its efforts. In the beginning of the implementation, colleges and universities were to be "held harmless" against any significant reduction in their existing level of

resources (U.S. Office of Education, 1979, p. 11). Thus the term "conditional guarantee" was created. Observing that there was a difference between grant aid (SEOG) and self-help (CWS and NDSL), the panel felt that separate formulas should apply to the two forms of aid.

Enactment of the Middle Income Assistance Act in 1978 meant that substantially greater amounts of federal student aid would become available (U.S. Office of Education, 1979). It was proposed by the panel that these new funds should be allocated through a fair-share approach. This meant that instead of basing an institution's allocation on the amount it had received before, its allocation would be determined in response to the need demonstrated by its students. Separate SEOG and self-help indices were developed to achieve the fair-share allocations. The grant index was defined as 70 percent of undergraduate costs of attendance less estimated family contributions, Basic Educational Opportunity Grants, state aid, and institutional aid (U.S. Office of Education, 1979). The index for setting undergraduate self-help was 30 percent of their costs less their estimated family contributions. For graduate students, the index was their costs less their estimated family contributions, since no assumptions were made concerning their fellowship aid. The undergraduate self-help index and graduate self-help index were then added together to produce a total self-help index.

It is important to note that the Panel of Experts wanted the conditional guarantee eventually to give way to the fair-share distribution. State allotment formulas were a troubling constraint to the equitable functioning of the new system. Recognizing that the formulas could only be altered by legislation, the Panel contended that the distribution of 10 percent of those funds on a discretionary basis promoted grantsmanship and should be ended (U.S. Office of Education, 1979).

The panel proposed that the fund allocation processes be implemented for the 1979-1980 funding year (U.S. Office of Education, 1979). They also recommended that the application for campus-based funding and an institution's report on its utilization of those resources be combined into one document, the FISAP. The recommendations put forth were approved by OE, which promptly issued appropriate regulations.

By the time the panel concluded its labors, two formulas actually existed. The first, which was not altered by the panel's efforts, continued to reserve campus-based funds by state as determined by student population. The second—really the crux of the panel's efforts—addressed the manner in which the resources were distributed to individual postsecondary institutions.

During the 1980 reauthorization of the Higher Education Act, Congress selected fiscal year (FY) 1979 funding allocations as the base year for the conditional guarantees for campus-based funds. The panel's recommendation to allocate SEOG funds to

institutions, as well as other proposals pertaining to CWS, were also written into that legislation. In fact, the 1980 reauthorization included provisions to reduce the SEOG conditional guarantee, and to eliminate graduate and professional students from inclusion in the SEOG formula.

As for the reduction, Congress stipulated that when the SEOG annual appropriation fell below \$400 million, participating colleges and universities would be allocated 100 percent of the amount received and spent in 1979, dropping in increments to 20 percent of the guarantee when the appropriation was between \$460 million and \$480 million.

This legislative language, however, was repealed by the Higher Education Act Technical Amendments of 1982, which established the conditional guarantee for SEOG, CWS, and NDSL at the FY81 institutional allocation and expenditure level. The panel's goal to eventually replace the distribution of campus-based funds by conditional guarantee with fair-share was abandoned for all practical purposes.

Subsequent Congressional action tried to retain the conditional guarantee as the primary means for allocating federal student aid funds to colleges and universities, updating at specific intervals the fiscal year on which the guarantee would be based. The Higher Education Amendments of 1986 moved the guarantee from FY81 to FY85. This legislation also altered the terminology of the program formula, replacing the term "conditional guarantee" with "base guarantee."

A substantive modification was also made to the allocation process in 1986 with the addition of a "pro-rata" increase. This new arrangement provided that after all the base guarantees were funded, whatever amount remained for each program was to be divided between 25 percent for pro-rata and 75 percent for fair-share. An institution's pro-rata increase was its relative base guarantee multiplied by the funds available for the pro-rata increases. The 1986 legislation also eliminated state funding guarantees from the allocation process, a step that the Panel of Experts had favored. The Higher Education Amendments of 1998 moved the base guarantee from FY85 to FY99. The 1998 legislation also eliminated the pro-rata distribution, leaving any funds remaining after the base guarantees to be allocated by fair-share.

## Conclusion

It is apparent that Congress' failure to eliminate the base guarantee has meant that many colleges and universities participating in the campus-based aid programs for a long time have substantially greater funding levels than institutions that have received their initial funding more recently. Many of these newer institutions enroll significant numbers of financially needy students, a population that the Panel of Experts had sought to assist with the fair-share approach.



The panel had viewed the base-year guarantee—first called the conditional guarantee—as a *temporary* means to avoid precipitous funding dislocations. The panel recommended that all campus-based funding would eventually be distributed through the fair-share mechanism as a way to direct funds to the most economically disadvantaged students. That change would benefit colleges and universities that are in their first two years of receiving federal allocations for the campus-based aid programs, since the base guarantee brings them only very limited funding.

There have been some indications that the Republican House majority will attempt to revise the allocation process and address its inequities during the forthcoming HEA reauthorization (National Association of Student Financial Aid Administrators, 2004). However, changes in the student financial aid process and funding are extremely difficult to achieve. Substantial federal funding is at stake for many institutions that have been part of the campus-based programs for many years, and any efforts to redirect this funding will likely meet with strenuous opposition. If this happens, there will undoubtedly be a fight among the various types of educational institutions and categories of students who stand to gain or lose funds as a result of a new allocation formula.

However, I believe that if the allocation process is not modified in a way that gives greater weight to a fair-share distribution, many of our nation's most disadvantaged but promising students will be denied access to postsecondary education.

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